

Rating Report (Surveillance) The City Bank Limited

Ratings

Long Term : **A₁**
 Short Term : **ST-2**
 Date of Ratings : **22 April 2010**
 Valid till : **30 June 2011**

Previous Ratings

Year	Long Term	Short Term
2009	A ₂	ST-2
2008	A ₂	ST-2

Analysts

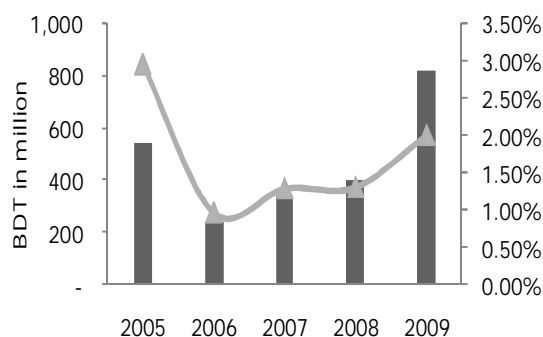
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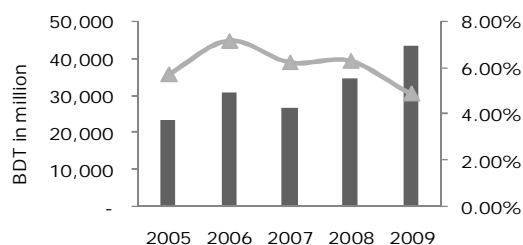
1.0 RATINGS RATIONALE
Financial Highlights

Particulars	2009	2008
ROAA (after tax) %	1.23	0.75
ROAE (after tax) %	16.24	11.23
Return on Avg. RWA (after tax) %	2.01	1.31
Cost to Income Ratio %	48.36	48.08
Gross NPL Ratio %	4.87	6.3
RWCAR (under Basel I) %	11.29	11.01
Loans to Deposit Ratio %	69.71	76.43

Credit Rating Agency of Bangladesh Limited (hereinafter called as CRAB) has upgraded the long term rating of The City Bank Limited (hereinafter called as CBL or the Bank) to "**A₁**" (pronounced **Single A One**) and retained short term rating to "**ST-2**". CRAB performed the rating surveillance based on financial statements up to 31 December 2009 and other relevant information.



■ Net Profit (after tax) ▲ Return on Avg. RWA



■ Credit Portfolio ▲ Gross NPL Ratio

Commercial Banks rated '**A₁**' have strong capacity to meet their financial commitments but are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than Commercial Banks in higher rated categories. **A₁** is judged to be of high quality and are subject to low credit risk. Commercial Banks rated ST-2 are considered to have strong capacity for timely repayment. Commercial Banks rated in this category are characterized with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds.

CBL as one of the 1st generation private commercial banks has a large branch network of 88 branches and 10 SME centers. The revenue of the Bank was reasonably diversified having 47.41% revenue from net interest income which has a growth of 37.46% in 2009. On the other hand, 30.34% revenue was generated from investment income and 16.42% from commission, exchange & brokerage income. For



the last five years CBL had experienced a high cost to income ratio which was 48.36% in 2009. On the other hand, due to high growth in operating income the staff cost to income ratio has decreased to 27.60% from 30.789% in 2009.

The net profit margin and return on average assets also increased in 2009 due to high growth in net profit. On the other hand, return on average RWA also increased to 2.01% in 2009 from 1.31% in 2008. During this period the return on average equity also increased even after decrease in leverage multiplier.

In 2009, 56.87% of its assets comprised loans and advances which has a growth of 26.34% and this loans were well diversified among different industries. In 2009 Bank's top 50 large loans exposures consisted 40.08% of total loans & advances.

Bank's NPL in 2009 was BDT 2,116.96 million which was 4.87% of total loans & advances (2008: 6.30%). In 2009 CBL was able to decrease the fresh NPL generation, which was 3.46% of total loans & advances (2008: 6.76%). At the same time in this period the amount of rescheduling and write off also decreased as percentage of total loans. On the other hand, cash recovery as percentage of total loans also decreased to 1.14% in 2009 from 1.22% in 2008. Of the total NPL 70.13% was in bad & loss category. On the other hand, Bank's special mention account (SMA) to loans & advances increased to 3.02% in 2009 which was 1.47% in 2008. However, the Bank had maintained surplus provision against the required provision for both classified and unclassified loans.

The Bank's risk weighted capital adequacy ratio was 11.29% which was 11.01% as against regulatory requirement of 10% (under Basel I). On the other hand, under Basel II framework capital adequacy ratio reduced to 7.95% for the same period mainly because of these loans were considered unrated. However, the Board has decided to increase the paid up capital by issuing right shares subject to the approval of shareholders in the EGM and SEC which will provide more capital cushion for the Bank.

The loans & advances to deposit ratio of the Bank was 69.71% at the end of 2009. On the other hand the monthly average of loans & advances to deposit ratio was 77.92%. The Bank was net borrower to the call market throughout 2009 except in May and December. The Bank's asset liability maturity bucket shows except for 1 to 12 months time interval the Bank possessed positive net liquidity gap. But cumulative net liquidity gap offset the negative position in 1 to 3 months time interval. The Bank's liquid assets to total deposit & borrowings ratio increased to 37.49% in 2009 from 32.86% in 2008.

The ratings also take into account the qualitative factors. The rating considers the credit policy and approval process practices are in place to protect the quality of the portfolio. CBL is among the very few local banks in which under their centralized process all types of transactions and monitoring are being done from CAD, which had been previously executed in branches.

Under the restructuring process of the Bank formation of new departments and reshuffling the human resources was a big challenge. In 2009 the numbers of staff joined and left CBL were 483 and 193 respectively.

CBL has gone through an enormous transformation in case of MIS during 2009. Networking and server hardware devices have been procured and implemented to support operations of online branches, POS's and ATMs. The milestone of any branch banking has been completed. They have taken initiatives to upgrade the Disaster Recovery Site (DRS). A big



achievement has been the introduction of the internet banking (i-Bank) and SMS banking. CBL has planned to maintain and update library of industry and market information.

During 2009 the Bank has opened 5 new branches and 5 SME centers. It has also raised its no of total ATMs to 50 in 2009 from 22 in 2008. In 2009 the Bank has launched American Express card and as a prerequisite of which it has opened a 24 hour call center. In 2009 the Bank has inaugurated its own new corporate head office at Gulshan Avenue. In 2009 the Bank obtained Off-shore banking unit permission which has started its operation at the beginning of 2010. The Bank currently has 4 brokerage house outlets. The Board of Directors of the Bank has decided to convert its Brokerage Business Division to a fully owned subsidiary company named as "City Brokerage Limited" subject to obtaining permission from concerned regulatory authority.

In 2009 CBL participated in a number of loan syndication arrangements as the lead arranger in energy, export oriented ceramic manufacturing and petrochemical industries. On the other hand, the Bank has introduced cash management service for both corporate and institutional clients. The Bank has a plan to run the cash management business in a more organized way by developing new collection product and payment product.